



# Parent PLUS Loans

## Sensible Financing for Your Child's Education

**Y**ou have been there for your child every step of the way. Now you are trying to determine how to finance the education of your child's dreams. Many families find that they have educational expenses beyond what their child is awarded in his or her financial aid package.

There are financing options available to help fill the gap. One of the best options is a federal Parent PLUS Loan. With high approval rates and a low, fixed student loan interest rate, a Parent PLUS Loan provides your family with an economical alternative to home equity loans, high interest rate credit cards, or private education loans. The information below will help you determine if this option is right for you. If you decide to borrow a Parent PLUS Loan, you should contact the financial aid office at your child's college or university to start the application process. It is best to apply early!

### Benefits of a Parent PLUS Loan

Parent PLUS Loans are designed to supplement financial aid that your dependent student receives and provide a simple solution for paying education expenses. Why should you select a PLUS Loan?

- The application process is easy. (Many lenders have online loan services.)
- Eligibility is not based on income or assets.
- There are no income or collateral requirements.
- Eligible applicants may borrow up to their child's full cost of education less other financial aid received.
- You have the opportunity to help your child with education expenses. This can help your student manage his/her student loan debt.
- Parent PLUS Loans have a low, fixed interest rate of 8.5%.
- Because PLUS loans are federally insured, loan forgiveness is available in the event that the parent borrower becomes totally and permanently disabled, or if either the parent or student dies.
- Flexible repayment options are available.
- Many lenders offer borrower benefits which may reduce the total cost of the loan.
- Interest paid on Parent PLUS Loans may be tax deductible.

### Eligibility

If you are a parent of a dependent, undergraduate student who is attending an eligible college or university at least half-time, you may apply for a Parent PLUS Loan if you meet the following eligibility criteria:

- You are the student's biological or adoptive mother or father or you are the spouse of a dependent student's custodial parent.
- You are a U.S. citizen, permanent resident, or other eligible non-citizen.

### Application Process

You may complete a paper Application and Master Promissory Note or select a lender that provides online loan services, including online loan pre-approval. You should check with your college or university financial aid office for preferred application procedures.

### Credit Check

A minimal credit check is completed to determine whether a Parent PLUS Loan applicant has adverse credit. A lack of credit history or insufficient credit history is not considered adverse credit for these purposes. A Parent PLUS Loan applicant is considered to have adverse credit if any of the following conditions apply:

- The applicant is 90 days or more delinquent on the repayment of any debt.
- The applicant has had any debt discharged in bankruptcy during the 5-year period before the date of the credit report.
- The applicant has been the subject of a default determination on any debt, a foreclosure, a tax lien, a repossession, a wage garnishment, or a write-off of a Title IV debt during the 5-year period before the date of the credit report.

*Some lenders may use more restrictive standards.*

### What Happens if You are Denied?

If you are denied a Parent PLUS Loan, you should contact your lender to determine if you have any recourse under the lender's policy. Your student may be eligible to borrow additional unsubsidized Stafford Loans if you are unable to borrow a Parent PLUS Loan. Contact your financial aid office for more information.

### Loan Limit

Parent PLUS Loans do not have annual loan limits. Parents may borrow up to their child's full cost of attendance, less other financial aid received.

### Interest Rate

Parent PLUS Loans first disbursed on or after July 1, 2006, have a fixed interest rate of 8.5% for the life of the loan.

### Fees

Parent PLUS Loans have a 3% origination fee charged by the U.S. Department of Education. There also is a 1% federal default fee. The Iowa College Student Aid Commission pays this fee on behalf of borrowers for loans it guarantees during the 2006-2007 award year<sup>1</sup>.

**Iowa College Student Aid Commission**

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Your Financial Aid Connection

## Repayment

Parent PLUS Loans do not have grace periods. Repayment begins 60 days after the Parent PLUS Loan is fully disbursed; however, some lenders will allow you to postpone or forbear repayment while your student is enrolled at least halftime. You will have a choice of repayment options. There are deferments, such as economic hardship, available to postpone repayment. Contact your lender for more information.

## Student Loan Interest Deduction

Parent PLUS Loan borrowers may be eligible to deduct some or all of the interest that they pay each year.

- A maximum of \$2,500 of student loan interest paid each year on qualified loans may be deducted. The allowable deduction decreases as income increases.
- Loans must have been used to pay for higher education expenses which may include tuition, fees, room & board, books, supplies, equipment, and necessary expenses such as transportation.

### Income Guidelines

- Individual: less than \$65,000
- Married couples filing jointly: less than \$135,000

Consult IRS publication 970 at [www.irs.gov](http://www.irs.gov) or check with your tax preparer for more information about higher education tax benefits to determine your eligibility.

## Parent PLUS vs. Private Education Loans

Parent PLUS Loans are federally-insured while private education loans follow consumer debt laws. Private loans often have a more detailed application process, more stringent eligibility criteria, limited repayment options, and variable rates with high interest rate caps. Interest rates for many private education loans are based on indexes such as Prime or LIBOR<sup>2</sup>. Both the Prime and LIBOR<sup>2</sup> rates have been steadily increasing since January 2005, and are projected to continue rising. The private education loan interest rate uncertainty makes the fixed Parent PLUS Loan rate of 8.5% very appealing. The chart below outlines some of the differences between the two loan programs.

	Federal Parent Plus Loan	Private Education Loans
<b>Fees</b>	3% origination fee. 1% federal default fee - This fee is paid by the Iowa College Student Aid Commission for the 2006-2007 award year <sup>1</sup> .	Fees vary. Some offer zero fees but have higher interest rates, while others have fees that are generally based on your credit history, ranging from 1% to 10%.
<b>Interest Rate</b>	8.5% fixed interest rate for Federal Family Education Loan Program (FFELP) Parent PLUS Loans first disbursed on or after July 1, 2006.	Most interest rates are variable rates that are adjusted monthly, quarterly, or annually.  Interest rates may vary based on your credit history. They are typically based on the Prime rate or LIBOR <sup>2</sup> plus add-on points with caps that may exceed 20%.
<b>Minimum Payment Amount</b>	The minimum payment amount is \$50 per month.	Minimum payment amounts vary by loan program and amount borrowed. Minimum payment amounts may range from \$17 per month and up.
<b>Minimum Loan Amount</b>	No federal minimum.	Minimum amounts vary from \$500 to \$1,500.
<b>Repayment Term</b>	10 years under a standard repayment schedule. Other repayment schedules include graduated, extended (up to 25 years), and income sensitive.	Repayment terms vary from 4 to 25 years based on the program and loan amount borrowed. Many offer both a standard or graduated repayment schedule.
<b>Deferment and Forbearance</b>	Yes, deferments are federally-guaranteed entitlements for qualified parent borrowers who are in school at least halftime, unemployed, experiencing economic hardship, participating in a graduate fellowship or rehabilitation training program, or are subject to military mobilization <sup>3</sup> .  In most cases, forbearance is granted at the loan holder's discretion. There are exceptions for certain qualified borrowers (for example, medical and dental interns and residents).	Many programs allow payments to be postponed while the parent borrower or student is enrolled at least halftime (some programs allow postponement for less than halftime enrollment.) However, private loan lenders are not required to offer deferments or forbearances.
<b>Loan Discharge and Forgiveness</b>	Parent PLUS Loans may be discharged (forgiven) by the federal government under certain circumstances such as total and permanent disability of the parent borrower, or death of the parent borrower or student for whom the Parent PLUS Loan was borrowed.	No. Most lenders do not discharge loan balances for any reason. If the borrower dies, some lenders will pursue the borrower's estate to satisfy the debt.  A cosigner, if any, may be responsible for the repayment of the loan obligation even in the event of the borrower's death.
<b>Federal Consolidation</b>	Parent PLUS Loans can be consolidated with the parent borrower's (not the student's) other federal loans. The interest rate cap on federal consolidation loans is 8.25%, which is .25% lower than the fixed Parent PLUS rate.	No. Private loans cannot be included in a federal consolidation loan. However, private loan balances may affect the maximum repayment period allowed on a federal consolidation loan.
<b>Cosigner Required</b>	No. However, some lenders may permit a parent borrower to obtain a credit-worthy cosigner if he or she is denied a Parent PLUS Loan.	Many programs require a cosigner when borrowers don't meet debt-to-income and/or credit requirements. A cosigner may also help the borrower qualify for better loan terms.

Private education loan information printed in this document is believed to be correct as of this printing (July 2006). It is intended for use as an approximate guide for comparison purposes only. To ensure fully informed borrowing, you should refer directly to each lender's loan application and promissory note for exact information regarding loan terms.

<sup>1</sup>All loans guaranteed by the Iowa College Student Aid Commission (ICSAC) from 7/1/06 to 6/30/07 will qualify for this benefit unless statutory, regulatory, or other changes occur that adversely impact ICSAC. This benefit will be reviewed on an annual basis.

<sup>2</sup>The London Interbank Offered Rate Index (LIBOR) is an average of the interest rates that major international banks charge each other to borrow U.S. dollars in the London money market.

<sup>3</sup>Military deferment is available July 1, 2006, for loans made on or after July 1, 2001. Not all U.S. military personnel may qualify.

